IOWA FINANCE AUTHORITY

Iowa Finance Authority Strategic Plan
2012-2016

I. Background and Introduction

This document updates and refreshes IFA's strategic plan and is consistent with the presentation and discussion with IFA's Board of Directors in late 2011. That plan, which included input from virtually all Iowa Finance Authority ("IFA" or "the Authority") staff and the Board, was focused on the policy and strategic issues facing the Authority. Over that last few years IFA's external environment has recently changed fairly dramatically. IFA has new leadership, implemented new programs, and faces new challenges brought on by changes in its external environment which all contributed to the need for this update.

For example, the Treasury Department's New Issue Bond Program (NIBP) was launched and amended to make it more useful to all HFAs including IFA. The Authority successfully awarded all of its low income housing tax credits allocations provided under ARRA, became the State's administrator for the HOME program, and successfully executed portions of the Governor's I-Jobs Program. Each of these developments has an impact on the Authority's overall strategy moving forward.

While the previous plan provided a good strategic direction it did not include financial projections nor incorporate a mechanism to ensure that there was sufficient monitoring of progress relative to the plan on a regular basis. The refreshed plan includes financial projections for the agency over the next 5 years and is based on assumptions for each business area. These projections will help management highlight key areas of opportunity and risk that the Authority needs to address over the next several years.

In addition, this plan includes Authority-wide and division specific goals and objectives that are actionable and measurable. This refinement will allow the management team and staff to regularly review progress towards goals and will provide a basis for our periodic re-assessment of the plan.

In future years, we will coordinate the update of the plan with the budget process so budgeting decisions are directly tied to the strategic plan. This will allow the team to regularly test assumptions and update the plan for changes in the environment and new opportunities.

II. Environmental Assessment and Key Trends

There are a number of external environmental factors that can affect the Authority's business that help influence its strategy and goals. This section examines some of these environmental factors.

General Economy

While the recession is technically over, general economic uncertainty and the lingering effects of the housing crisis continue to result in a weak economy. While most housing indicators have improved relative to their lows on 2008 and 2009, activity levels such as housing starts remain at levels not seen since the mid-1990's. Many commentators expect that the overhang from the housing bubble will take a few years to work its way through the economy which will dampen overall economic activity. As a consequence, IFA may see low to moderate demand for single family mortgages offset by high demand for affordable rental properties in the near to medium term.

This phenomenon is directly related to the high levels of unemployment and under employment which dampens the probability of a consumer led recovery. Furthermore, corporations are less likely to increase capital investment for growth due to economic uncertainty and generally low confidence in the economy.

All of these factors are leading banks and other financial institutions to be more conservative in lending to both corporations and consumers while increased financial regulation will in turn make financial products more expensive and in some cases unavailable (e.g. municipal bond insurance).

Finally, the uncertainty of the global economic and political environment is increasing tensions on the international level (e.g. currency valuations and trade) could also impact the viability and strength of any US recovery. The G20's pressure on newly industrialized nations to revalue their currencies and the threat of a trade war are all factors that can directly impact the State economy.

State-Economy

While Iowa has a lower unemployment rate than the rest of the country and its State budget appears to be manageable, there are still weaknesses in the overall economy and specific sectors that contribute to overall economic growth and employment.

While overall business sentiment appears to be improving, there are some risks to the economy. Iowa's high exposure to financial services continues to dampen the employment outlook as those businesses either reduce staff or in some cases exit entire lines of business, e.g. Wells Fargo Financial.

However, like the general economy, Iowa, is showing signs of improvement although from a relatively low base. This can directly affect the demand for our programs and the need for services that we offer in support of affordable housing.

Capital and Funding Markets

The unprecedented dislocations in funding and capital markets have led to significant changes in how these markets operate and how the Authority should rely on them. For the foreseeable future, we expect to operate under an environment driven by increased conservatism, stronger regulation, and a healthy aversion to risk. While IFA remains highly rated and is well positioned relative to other entities, it has been and will continue to be impacted by these changes.

For example, new Municipal Securities Rule Making Board (MSRB) regulations will change the business models of many of our service providers and impact their ability and willingness to provide similar levels of service to IFA as in the past. Investors are more conservative and rely less on the rating agencies which is leading to calls for improved disclosure among municipal issuers including HFAs.

Changes in regulation, such as Basel III, may lead to certain products becoming more expensive for banks to offer and could lead to the further rationing of credit and liquidity.

While markets have improved in many ways, there will be continued uncertainty which has implications for IFA's financial strategy. This implies that IFA should continue to diversify its funding sources, maintain multiple relationships with the banking community, and ensure that it does not become reliant on a narrow strategy or limited number of service providers.

Legislative Trends

Changes in the makeup of Congress and the Iowa legislature have the potential to affect the authority's business model. For example, Congress is also poised to address tax policy on several levels. Portions of the proposed comprehensive plan by the Bipartisan Policy Center do not specify which tax expenditures should be eliminated and does not mention the Housing Credit or Housing Bonds. However it does note that tax expenditures that merit government subsidy should be retained and either counted as discretionary expenditures, or fully offset by tax increases or spending cuts.

The Iowa legislature is also poised to address taxes and spending. It will focus on property taxes; specifically, the distribution among residential, commercial and agricultural. The new legislature appears to have little appetite for spending and issuing debt. Therefore a thorough evaluation of the status quo, if not reduction, in program funding could occur. This would primarily affect the State Housing Trust Fund, HCBS Rent Subsidy and the Military Grant programs.

Affordable Housing Trends

The weak economy is leading to growing demand for affordable housing, including multi-family housing. Iowa continues to have a need for rural housing preservation and maintaining affordable housing throughout the State. Demand for recently completed tax credit projects demonstrates the level of demand.

III. Authority SWOT Analysis

As a part of the planning process, virtually all staff members participated in meetings to develop SWOT (Strengths, Weaknesses, Opportunities and Threats) Analyses of their individual areas. A group of senior managers then met to discuss these analyses and develop an organization-wide SWOT. This section summarizes the overall organization's SWOT. The purpose is not only to identify the organizations strengths, weaknesses, opportunities and threats but the analysis should help us to identify goals and objectives that allow the Authority to build on its strengths, address its weaknesses, exploit opportunities, and mitigate impending threats.

Strengths

a. Staff knowledge and commitment/Mixture of Tenured and New Employees – The staff is very knowledgeable in their respective areas of expertise and is able to bring that knowledge to bear in the Authority's programs and activities. In addition, there is an appropriate balance between long-tenured and newer staff which enables the Authority to bring new perspectives to its work without losing the institutional value associated with long-term knowledge of the organization.

b. Self Funding - Unlike many other state agencies, the Authority is largely self funded which allows some flexibility in how it carries out its programs and provides some stability in its programs.

c. Financial strength and AA/Aa3 individual credit rating - The Authority's AA/Aa3 individual credit rating is a source of strength in that it enables the Authority to withstand financial stresses and lowers its cost of funding. The credit rating also provides some flexibility in terms of its funding choices and capacity.

d. Flexibility - The Authority's ability to adapt to and incorporate changes in programs is seen as a strength as well. For example, we successfully took on the TCAP and Exchange programs with some success to get tax credit projects moving in the last year. In addition, we developed the infrastructure and successfully administered the I-Jobs program, and modified the single family funding model to adapt capital market changes. Each of these initiatives demonstrates the Authority's ability to be nimble and adapt to change. This has been and will continue to be an important factor in determining our effectiveness.

e. Good Reputation – The Authority over the years has been fortunate in its ability to develop a good reputation at the State level, among private and non-profit sector housing specialists that work with the Authority. This helps facilitate cooperation when the Authority attempts to gain support for and implement its various programs.

f. Strong relationships with customers/legislature and other stakeholders - The Authority has solid relationships with and a good reputation with its stakeholders, e.g. the legislature and other interested parties. This is evidenced through the governor's office providing responsibility for administering the I-Jobs program to IFA as well as the transfer of the HOME program to the Authority. Developers, banking institutions and others stakeholders generally hold IFA is high regard as well. This credibility allows the Authority to use its influence to achieve mission related initiatives.

g. Product quality - The Authority also has the benefit of offering good quality products that are very useful in providing affordable housing and economic development to Iowans and achieving our mission. This includes the single family fixed rate mortgages, multifamily lending products, low-income housing tax credits, and well as the various grant programs that we offer.

Weaknesses

a. Policies not fully documented - In many instances, across the organization our policies are not fully documented or are not up-to-date. This can expose the Authority to operational, financial, and reputational risk if a significant process is not followed or an error occurs leading to a financial loss. Developing a process whereby policies are regularly reviewed and updated allow the Authority to identify significant areas of risk and implement the proper controls to reduce the prevalence or magnitude of any risk.

b. Limited staff back-ups and cross training - In many instances, the Authority has key staff dependencies and a limited number of back-ups for important activities. Cross training has not been regularly implemented across all divisions. This results in key person dependencies and places the Authority at risk if key individuals are not available to complete critical tasks.

c. Organizational Silos - Given the specialized nature of some of our divisions, Authority staff tends to operate in silos. In addition, there can be better communication on the issues facing individual divisions outside of the division. At times, these factors limit our ability to share ideas, resources, and knowledge across projects.

d. Limited communication of activities – The Authority can improve its internal communications to ensure that it is leveraging the knowledge it has across the organization and better coordinate its activities.

e. Concentration of risk – In certain instances, the Authority has high risk concentrations. For example, it has only two swap counterparties, has significant multifamily and LIHTC exposure to selected entities, and has high balances of SRF linked deposits with certain Iowa banks. Developing a strategy to diversify that risk may be prudent.

f. Limited Awareness of IFA – While the Authority enjoys are good reputation among stakeholders that are aware of its programs, in general the Authority is not well known across the state and within key areas. This at times can limit the Authority's impact and ability to execute its mission.

g. Lack of Succession Plan and Board Development – the Authority has several key person dependencies across the organization and has not developed a management succession plan. Therefore, if certain key managers departed the organization, there would not be ready successors for many positions. In addition, given that over half of the board was within the last year, it will take a little time before it will be fully productive. A development plan for new board members could be helpful in that regard.

Opportunities

a. Cross training – The Authority can develop an organization wide strategy to cross train staff to reduce key person dependencies, strengthen staff knowledge, and further develop early and mid-career staff. This can help to address an organizational weakness described above.

b. Develop and Offer New Products – The Authority has an opportunity to expand its products offerings on both single and multifamily sides of the business. Successful new products can help further the Authority's mission.

c. Enhance reporting of results and activities - To address some of the communications weaknesses IFA can develop more robust and regular reporting of results and activities across the organization

d. Enhance Communication - IFA has an opportunity to implement strategies to improve its communications both internally and externally.

e. Improve technology - IFA has the opportunity to improve its technology. This includes leveraging technology to improve management reporting, automating existing activities, and implementing new systems where appropriate.

f. Improve Risk Management - While the Authority has done a reasonable job in managing its risk, there are areas where it can improve. For example, developing standard approaches and information requirements for all "underwriting" activities would be helpful, diversifying any risk concentrations, and developing a risk management policy are all areas where the Authority can improve its risk management activities.

g. Succession Plan – There is an opportunity to develop a management succession plan to strengthen the overall management of the Authority and reduce the risk of unplanned turnover.

h. Collaboration with Other State Agencies – IFA has the opportunity to strengthen its collaborative work with certain state agencies, e.g. Economic Development Authority, to better leverage state resources for economic development.

Threats

a. Continued weak or weakening economy – If the economy continues to be weak, it could lead to declining asset balances across all of our programs and reduce net interest earnings going forward.

b. Continued unsettled bond markets – Bond markets, including municipal bond markets, have not returned to historical norms. For example, at current mortgage and funding rates, the single family program could not issue debt profitably. While New Issue Bond Program will likely allow for issuance in the next calendar year, if rates do not return to historical levels in 2012, program volumes could remain low.

c. Housing market deterioration – while there are signs of improvement in the housing market, it remains very weak. Foreclosures continue to be at very high rates, weak home values are having a negative impact on consumer wealth and spending, and although rates are low, many potential homeowners may remain in the sidelines. As a consequence, this could negatively impact the Authority's balance sheet leading to declining net interest income.

d. Uncertain legislative process and outcomes – As always, there is some uncertainty associated with the legislative process and legislative outcomes. IFA could be negatively impacted by legislative initiatives.

e. Unexpected changes in business model – Similar to the massive market dislocations in 2008 and 2009 which weakened the Authority's business model, there may be other exogenous shocks or regulatory changes that could change the Authority's business model. Such changes may be difficult to adapt to and could significantly change how we do business going forward.

f. New regulations – While new financial regulations have been passed, it is unclear as to the ultimate impact of all pieces of the legislation or how they may be implemented.

g. Staff turnover – either through retirement or regular attrition the Authority could lose key staff members during the planning period, negatively impacting our ability to continue to work at high levels.

IV. Goals and Objectives

Based on our review of the external environment as well as our SWOT analysis, we have developed a list of agency goals and objectives over the next several years. The goals are separated into Agency-wide goals as well as individual division or team goals.

Agency-wide goals

1. Grow and continue to enhance the delivery of affordable housing throughout the State

2. Enhance internal and external communications to increase state-wide awareness of IFA with key stakeholders to grow key programs and increase IFA contribution to State's housing and economic development
3. Tie performance review process to strategic and departmental goals, enhance career development process and develop staff needs assessment and training strategy to better support programs
4. Continue to implement continuous process improvements to increase program efficiency, strengthen customer ease of use, and allow for program growth
5. Enhance risk review process to better manage financial and operational risks, e.g., asset management, diversify funding, and develop business continuity plan

Division and Departmental Goals

i. Section 8
   1. Maintain IFA's high standing with HUD by minimizing HUD Annual Compliance Review Findings.
   2. Collect 100% of Contract Administration Fees.
   3. Continue to provide new property owner training to educate them on compliance requirements, improve property management, and develop stronger relationships.
   4. Increase number of satisfied property owners in each Section Performance based Tasks in Section 8 Contract.
   5. Publish Quarterly Newsletter – "News Br – 8k Newsletter to increase program awareness and inform property owners of developing issues.

ii. Accounting and Operations
   1. Update and test disaster recovery/business continuity plan.
   2. Create loan servicing department to improve operational efficiency, improve responsiveness to borrowers, and better manage credit risk.
   3. Reduce staffing risks by managing expected key accounting staff retirements.

iii. Title Guaranty
   1. Process Division-Issued Certificates with a two week or less turnaround time and a 5% or less error rate; and Division-Issued Commitments within 24 hours with 5% or less error rate.
   2. Conduct systematic review of all TG materials, Manuals, Supplements, Commitment, Certificate and Endorsement forms and CAP system.
   3. Audits/Compliance - Perform audits on 24 large volume CPL covered persons/entities and field issuers, and other audits for participating attorneys, abstractors, and closing companies.
   4. Review of field issued files in Audit status using the CAP system -- Commitment review within one business day, Certificates within one business week.
   5. Mortgage Release requests processed within one week by TGD staff and attorneys.

iv. SRF
    1. Improve responsiveness to borrowers and efficiency by creating or acquiring web-based software for program management and to have applications, disbursements and project information all online and accessible to borrowers.
    2. Continue to grow the SRF program by at least $300 million in new loans annually.
    3. Have all linked deposit lenders sign new Lender Participation Agreement.
    4. Improve program financial and risk management by creating a process to review borrowers' financial capacity.
    5. Improve financial forecasting and capacity analysis to maintain and grow program capacity for existing and potential borrowers.

v. Administration
    1. Complete 100% of performance appraisals on time and tie individuals goals to strategic plan objectives.
    2. Launch new IFA Website that encompasses new brand and increases transparency, accessibility and ease of use.
    3. Develop and implement communications strategy for all programs to increase awareness and grow programs.
    4. Educate legislators and key state officials on IFA's special role in contributing to the State's housing and economic development.

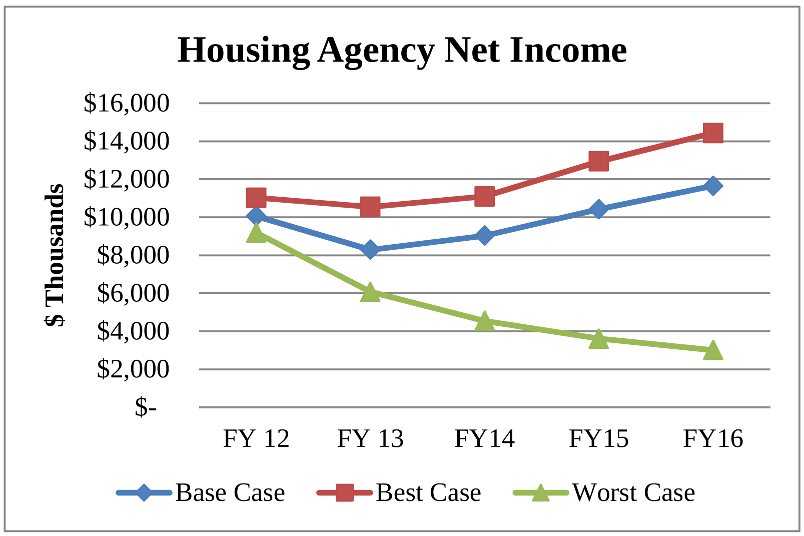
vi. Finance
    1. Strengthen Authority's financial position to raise Moody's IFA GO Rating to Aa2 from Aa3 to lower funding costs and strengthen financial stability
    2. Enhance asset management process to improve credit risk management, strengthen properties, and develop early warning system for potential at risk projects.
    3. Work with Department of Administrative Services (DAS) to implement leveraged energy fund to grow the State's resources for funding energy efficiency projects for State facilities.
    4. Improve financial risk management and diversify counterparty exposure
    5. Strengthen MBS secondary market trading capability to develop further a key funding source for single family program and grow revenues and profitability.
    6. Continue to seek ways to diversify funding sources, e.g. FHLB variable rate single family index bonds, to improve financial flexibility and profitability.

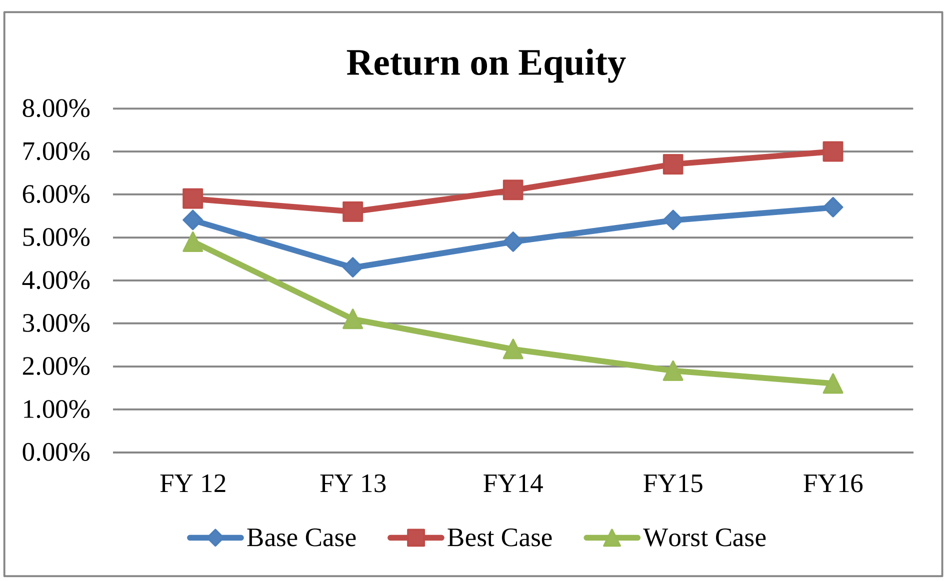
vii. Affordable Rental
    1. Create user and administrator friendly electronic application, reporting, and program management system for HOME and all Homeless Programs.
    2. Create a standardized IFA risk management due diligence tool that applies to all applicants for funding.
    3. Establish structured process to receive requested amendment to LURAs.
    4. Prevent IFA from getting behind on compliance efforts.

V. Housing Agency Financial Projections[1]

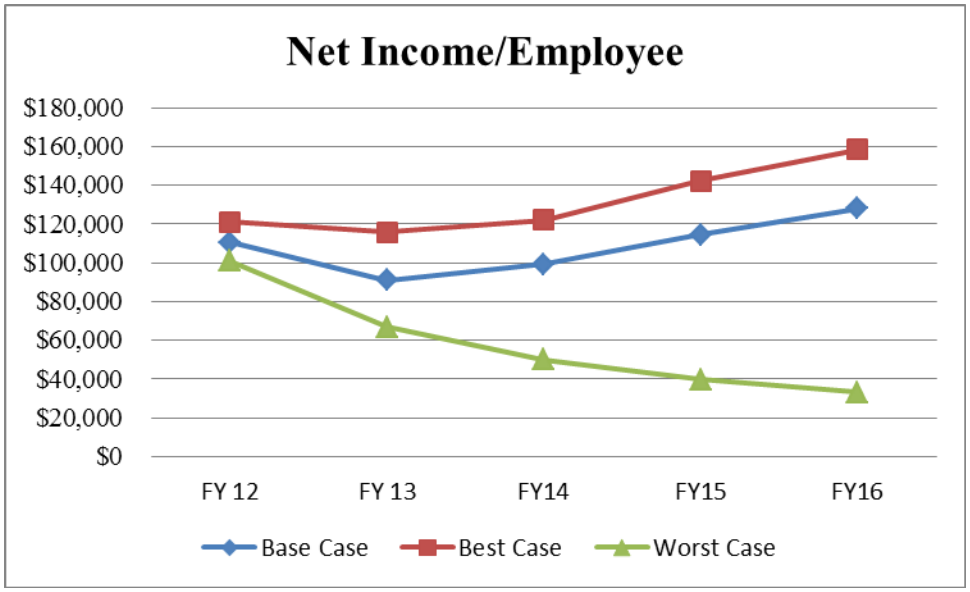
The financial projections focus on the performance of the Housing Agency as a whole. We incorporate both SRF and Title Guaranty based on their net impact on the Housing Agency but do not include separate financial projections on either of those divisions.

The financial projections include base, worst and best case scenarios for the Housing Agency as well as key ratios for each scenarios. The graphs below depict the Authority's net income, return on equity and net income per employee under each scenario. In each scenario the Authority remains profitable. Net income can range from over $14 million in FY 16 to down to less than $3 million while return on equity can grow to over 7% to down to less than 25 in FY16.





Detailed assumption information available in the appendix.



Key Risks

There are a number of risks that can add variability to this strategic plan. First, if the general economy does not improve or worsens, the overall level of activity which generates earning assets for the Authority could decline. We have assumed $175 million annually in single family activity, steady contributions from Title Guaranty and the SRF program, renewal of the Section 8 contract and other revenue producing activity. If the economy worsens or stagnates, revenue could begin to decline and place pressure on the Housing Agency's earning capability.

Second, while specific regulation associated with Financial Reform Legislation has not been completed, new regulation could increase the cost of doing business and slow down or eliminate the growth in earning assets.

Finally, there are issues that could be counterproductive to IFA's growth

1. General economy worsens leading to slow down in single and multifamily housing activities.
2. Regulatory activism across all lines of business leading to slow down in growth, higher costs, and loss of efficiency
3. Operation risk error
4. Capital market uncertainty leads to higher funding costs

APPENDIX

Financial Projections

The tables below outline the Authority base, best and worst case financial projections over the next five years. Assumptions for each of these scenarios are included at the end of this appendx.

Base Case Financial Projections

Base Case -Housing Agency Income Statement

	FY 12	FY13	FY14	FY15	FY16
Income					
Fee Income	$9,787,832	$9,637,095	$9,623,368	$9,711,658	$9,764,782
Interest Income	$47,844,662	$47,906,853	$51,323,552	$56,489,960	$61,795,942
Authority Fee	$3,896,476	$4,055,515	$4,254,120	$4,542,834	$4,887,562
Other Income	$1,887,982	$901,050	$988,725	$988,725	$988,725
Total Income	$63,416,952	$62,500,513	$66,189,766	$71,733,176	$77,437,011
Expenses					
Interest Expense	$36,457,217	$35,850,245	$38,022,500	$41,436,935	$44,991,101
Authority Fee	$3,896,476	$4,055,515	$4,254,120	$4,542,834	$4,887,562
Employee Compensation	$8,054,643	$8,417,863	$8,754,577	$9,104,760	$9,468,951
Other Expenses	$4,958,650	$5,892,732	$6,131,220	$6,233,458	$6,446,632
Total Expenses	$53,366,987	$54,216,355	$57,162,417	$61,317,987	$65,794,247
Net Income (Loss)	$10,049,966	$8,284,158	$9,027,348	$10,415,189	$11,642,765

Base Case - Housing Agency Balance Sheet

	FY 12	FY13	FY14	FY15	FY16
Assets					
Cash & Investments	$197,924,528	$195,880,491	$199,415,708	$209,959,787	$221,733,051
MBS	$768,594,726	$784,147,113	$845,073,665	$920,948,081	$992,110,921
Loans	$73,520,090	$93,233,749	$103,110,557	$112,635,108	$122,130,765
Fixed Assets	$3,030,959	$2,984,359	$2,917,759	$2,831,159	$2,724,559
Total Assets	$1,043,070,302	$1,076,245,713	$1,150,517,690	$1,246,374,135	$1,338,699,297
Liabilities					
Bonds Payable	$832,900,000	$873,725,000	$944,630,000	$1,030,015,000	$1,111,610,000
Line of Credit	$5,606,613	$15,000,000	$15,000,000	$15,000,000	$15,000,000
TGD Claims Reserve	$3,371,900	$3,371,900	$3,371,900	$3,371,900	$3,371,900
Total Liabilities	$841,878,513	$892,096,900	$963,001,900	$1,048,386,900	$1,129,981,900
Net Assets	$201,191,789	$184,148,813	$187,515,790	$197,987,235	$208,717,397

Base Case - Housing Agency Key Ratios

	FY 12	**FY13**	**FY14**	**FY15**	**FY16**
Return on Assets	0.97%	0.78%	0.81%	0.87%	0.90%
Return on Equity	5.4%	4.3%	4.9%	5.4%	5.7%
Net Interest Income	$11,387,446	$12,056,608	$13,301,052	$15,053,025	$16,804,841
Net Interest Margin	1.09%	1.14%	1.19%	1.26%	1.30%
Equity/Assets	19.3%	17.1%	16.3%	15.9%	15.6%
Loans to Assets	80.7%	81.5%	82.4%	82.9%	83.2%
Fee Income/Total Income	15.43%	15.43%	14.54%	13.54%	12.61%
Net Income/ Employee	$110,439	$91,035	$99,202	$114,453	$127,942
Revenue/Employee	$696,890	$686,819	$727,360	$788,277	$850,956
Efficiency Ratio (operating costs to total revenue)	84.2%	86.7%	86.4%	85.5%	85.0%

Best Case Financial Projections

Best Case - Housing Agency Income Statement

	FY 12	FY13	FY14	FY15	FY16
Income					
Fee Income	$9,787	$9,654	$9,658	$9,765	$9,837
Interest Income	$48,944	$51,681	$58,681	$67,085	$74,918
Authority Fee	$3,922	$4,049	$4,274	$4,886	$5,453
Other Income	$1,887	$1,426	$1,426	$1,426	$1,426
Total Income	$64,542	$66,811	$74,041	$783,164	$91,636
Expenses					
Interest Expense	$36,611	$38,031	$43,708	$49,856	$55,648
Authority Fee	$3,922	$4,049	$4,274	$4,886	$5,454
Employee Comp.	$8,054	$8,417	$8,754	$9,104	$9,469
Other Expenses	$4,936	$5,774	$6,217	$6,377	$6,640
Total Expenses	**$53,524**	**$56,272**	**$62,954**	**$70,226**	**$77,211**
Net Income	**$11,017**	**$10,538**	**$11,087**	**$12,938**	**$14,425**

Best Case - Housing Agency Balance Sheet

	FY 12	FY13	FY14	FY15	FY16
Assets					
Cash & Investments	$184,412,461	$187,170,954	$196,988,581	$214,952,235	$233,729,634
MBS	$795,344,939	$856,854,417	$996,239,570	$1,125,699,906	$1,241,736,970
Loans	$75,162,669	$104,697,781	$114,398,166	$123,758,800	$133,102,060
Fixed Assets	$3,030,959	$2,984,359	$2,917,759	$2,831,159	$2,724,559
Total Assets	$1,057,951,027	$1,151,707,512	$1,310,544,077	$1,467,242,100	$1,611,293,223
Liabilities					
Bonds Payable	$845,730,000	$947,325,000	$1,096,205,000	$1,239,428,825	$1,368,446,875
Line of Credit	$5,606,613	$25,000,000	$25,000,000	$25,000,000	$25,000,000
TGD Claims Reserve	$3,371,900	$3,371,900	$3,371,900	$3,371,900	$3,371,900
Total Liabilities	$854,708,513	$975,696,900	$1,124,576,900	$1,267,800,725	$1,396,818,775
Net Assets	$203,242,514	$176,010,612	$185,967,177	$199,441,375	$214,474,448

Best Case Housing Agency Key Ratio

	FY 12	FY13	FY14	FY15	FY16
Return on Assets	1.05%	0.95%	0.90%	0.93%	0.94%
Return on Equity	5.9%	5.6%	6.1%	6.7%	7.0%
Net Interest Income	$12,332	$13,649	$14,974	$17,228	$19,270
Net Interest Margin	1.18%	1.24%	1.22%	1.24%	1.25%
Equity/Assets	19.2%	15.3%	14.2%	13.6%	13.3%
Loans to Assets	82.3%	83.5%	84.7%	85.2%	85.3%
Fee Income/Total Income	15.17%	14.45%	13.05%	11.74%	10.74%
Net Income/ Employee	$121,071	$115,811	$121,844	$142,178	$158,515
Revenue/Employee	$709,253	$734,194	$813,642	$913,891	$1,006,989
Efficiency Ratio (operating costs to revenue)	82.9%	84.2%	85.0%	84.4%	84.3%

Worst Case -Housing Agency Income Statement

	FY 12	FY13	FY14	FY15	FY16
Income					
Fee Income	$9,727	$9,571	$7,940	$7,350	$7,360
Interest Income	$46,122	$41,628	$38,082	$35,705	$34,082
Authority Fee	$3,705	$3,487	$3,265	$3,081	$2,963
Other Income	$1,887	$638	$638	$638	$638
Total Income	**$61,442**	**$55,325**	**$49,925**	**$46,775**	**$45,043**
Expenses					
Interest Expense	$35,796	$31,593	$28,264	$26,152	$24,670
Authority Fee	$3,705	$3,487	$3,264	$3,081	$2,963
Employee Comp.	$8,054	$8,417	$7,938	$7,971	$8,289
Other Expenses	4,925	$5,761	$5,920	$5,965	$6,109
Total Expenses	**$52,261**	**$49,260**	**$45,388**	**$43,171**	**$42,032**
Net Income	**$9,181**	**$6,065**	**$4,538**	**$3,604**	**$3,011**

Worst Case - Housing Agency Balance Sheet

	FY 12	FY13	FY14	FY15	FY16
Assets					
Cash & Investments	$240,010,429	$230,352,743	$225,984,499	$231,035,635	$230,273,755
MBS	$692,070,994	$622,780,015	$558,352,195	$512,348,874	$478,588,768
Loans	$73,047,040	$76,894,146	$75,786,389	$74,323,359	$72,976,372
Fixed Assets	$3,030,959	$2,984,359	$2,917,759	$2,831,159	$2,724,559
Total Assets	$1,008,159,422	$933,011,263	$863,021,115	$820,539,028	$784,563,454
Liabilities					
Bonds Payable	$799,560,000	$731,805,000	$663,435,000	$621,515,000	$586,080,000
Line of Credit	$5,606,613	$10,000,000	$10,000,000	$10,000,000	$10,000,000
TGD Claims Reserve	$3,371,900	$3,371,900	$3,371,900	$3,371,900	$3,371,900
Total Liabilities	$808,538,513	$745,176,900	$676,806,900	$634,886,900	$599,451,900
Net Assets	$199,620,909	$187,834,363	$186,214,215	$185,652,128	$185,111,554

Worst Case - Housing Agency Key Ratios

	FY 12	FY13	FY14	FY15	FY16
Return on Assets	0.90%	0.62%	0.51%	0.43%	0.38%
Return on Equity	4.9%	3.1%	2.4%	1.9%	1.6%
Net Interest Income	$10,545	$10,035	$9,817	$9,552	$9,412
Net Interest Margin	1.03%	1.03%	1.09%	1.13%	1.17%
Equity/Assets	19.8%	20.1%	21.6%	22.6%	23.6%
Loans to Assets	75.9%	75.0%	73.5%	71.5%	70.3%
Fee Income/Total Income	15.83%	17.30%	15.90%	15.71%	16.34%
Net Income/ Employee	$100,894	$66,654	$49,864	$39,610	$33,093
Revenue/Employee	$675,196	$607,976	$548,631	$514,015	$494,987
Efficiency Ratio (operating costs to revenue)	85.1%	89.0%	90.9%	92.3%	93.3%

Assumptions

Base Case Assumptions

General Fund

1. Section 8 contract renewed throughout 5-year period
2. Employee compensation and G&A expenses increase 4% per annum. No change in staffing levels.
3. Main Street Iowa loan closings of $500,000 annually
4. Grants that are 100% pass-thru are not included in the financials.
5. General Fund investment portfolio returns 1%
6. Estimated fees from received from HOME, LIHTC, miscellaneous Federal and State programs are the same for each of the 3 scenarios Projected revenues are based upon interviews with Program staff

Single Family -

1. MRB Eligible - CY 2012 = $125 million; CY 2013 = $150 million; CY 2014 = $175 million; CY 2015 = $175 million; CY 2016 = $175 million;
2. Homes for Iowans - CY 2012 = $10 million - CY 2013 = $10 million - CY 2014 = $10 million - CY 2015 = $10 million - CY 2016 = $10 million -
3. Mortgage Prepayment Speeds - 225% PSA for all pre-2009 deals - 150% PSA for all post-2009 and future Single Family deals
4. Liquidity costs increase to 0.70% per annum upon renewal
5. Reinvestment rate based on Aug-2011 3-month Agency forward curve

Multifamily

1. $15 million average construction loan balance
2. Annual permanent loan funding of $10 million;

Title Guaranty

1. Housing program annual transfer fluctuates fromm$1.6 million to $1.0 million
2. Reserve account remains at $3,371,900
3. Residential premium fees remain at $3,785,000 per annum
4. Net commercial premium income remains at $700,000 per annum

Best Case Assumptions

General Fund

1. Section 8 contract renewed throughout 5-year period
2. Employee compensation and G&A expenses increase 4% per annum. No change in staffing levels
3. Estimated fees from received from HOME, LIHTC, miscellaneous Federal and State programs are the same for each of the 3 scenarios Projected revenues are based upon interviews with Program staff.
4. Grants that are 100% pass-thru are not included in the financials.

5. Main Street Iowa loan closings of $500,000 annually
6. General Fund investment portfolio returns 1%

Single Family

1. MRB eligible volume - CY 2012 = $125 million - CY 2013 = $225 million - CY 2014 = $225 million - CY 2015 = $225 million - CY 2016 = $225 million
2. Homes for Iowans volume (sold at 103 dollar price or 3% premium in the TBA market) - CY 2012 = $18.75 million - CY 2013 = $18.75 million - CY 2014 = $18.75 million - CY 2015 = $18.75 million - CY 2016 = $18.75 million
3. Mortgage prepayment speeds - 150% PSA for all current and future Single Family deals
4. Liquidity costs increase to 0.70% per annum upon renewal
5. Reinvestment rate based on Aug-2011 3-month Agency forward curve + 50 bp

Multifamily

1. $25 million average construction loan balance
2. Annual permanent loan funding of $10 million;

Title Guaranty

1. Housing program annual transfer fluctuates fromm$1.6 million
2. Reserve account decreases
3. Residential premium fees remain at $3,785,000 per annum
4. Commercial premium fees increase by 2.5% per annum

Worst Case Assumptions

General Fund

1. Section 8 contract not renewed in 2013 Associated Section 8 revenues, expenses, and employee count is reduced
2. Employee compensation and G&A expenses increase 4% per annum
3. No Main Street Iowa loans closed
4. Grants that are 100% pass-thru are not included in the financials.
5. General Fund investment portfolio return gradually decreases to 0.40%

Single Family

1. MRB Volume - CY 2012 = $125 million - CY 2013 = $75 million - CY 2014 = $75 million - CY 2015 = $75 million - CY 2016 = $75 million
2. Homes for Iowans Volume- CY 2012 = $10 million - CY 2013 = $10 million - CY 2014 = $10 million - CY 2015 = $10 million - CY 2016 = $10 million
3. Prepayment Speeds - 400% PSA for all current and future Single Family deals
4. Liquidity costs increase to 0.70% per annum upon renewal
5. Reinvestment rate assumed to be 0.25% over next 5 years

Multifamily

1. $10 million average construction loan balance
2. No future multifamily permanent financing only Pedcor deal in 2011

Title Guaranty

1. Housing program annual transfer fluctuates fromm$1.6 million to $1.0 million
2. Reserve account remains at $3,371,900
3. Residential premium fees remain at $3,785,000 per annum
4. Net commercial premium income remains at $700,000 per annum